FISCAL POLICY DIVISION

REPUBLIC OF THE PHILIPPINES. President/

BUDGET

FOR THE FISCAL YEAR

1960

VOLUME I

SUBMITTED BY THE

PRESIDENT OF THE PHILIPPINES

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THE PRESIDENT'S BUDGET MESSAGE

Malacañang

MANILA

February 10, 1959

GENTLEMEN:

Pursuant to the provisions of Section 19(1), Article VI, of the Constitution, I am submitting the Budget of the National Government for the fiscal year ending June 30, 1960.

FISCAL YEAR 1960 BUDGET TOTALS

	FY 1958 (Actual)	FY 1959 (Estimated)	FY 1960 (Estimated) "A" Budget	FY 1960 (Estimated) "B" Budget
BUDGET RECEIPTS: [a]				
1. General Fund—				
Existing Revenue Sources	₱728,761,411	₱758,418,374	₱736,612,240	
Sales of Treasury Notes	75,000,000			
Proposed Revenue Measures		33,328,500		241,600,000
2. Special and Fiduciary Funds	211,949,949	144,940,016	171,582,180	
3. Reparations Funds		22,974,932	13,441,540	
4. Bond Fund	110,421,982	59,238,000	102,582,000	
Total	1,126,133,342	1,018,899,822	1,024,167,960	241,600,000
BUDGET EXPENDITURES: [a]				
1. General Fund	789,713,357	784,895,931	728,131,260	241,578,360
2. Special and Fiduciary Funds	163,946,015	180,383,893 [b]	181,912,590 [b]	
3. Reparations Funds		10,007,853	2,471,100	
4. Bond Fund	109,547,072	58,938,000	102,282,000	
Total	1,063,206,444	1,034,225,677	1,014,796,950	241,578,360
BUDGET APPROPRIATIONS:				
1. General Fund	779,984,865	815,968,388	667,245,360	92,685,550
2. Special and Fiduciary Funds	165,613,830	162,324,387	163,291,420	
3. Reparations Funds		26,000,000	2,786,580	
4. Bond Fund	234,795,000	24,000,000		
Total	₱1,180,393,695	₱1,028,292,775	₱833,323,360	₱92,685,550

[a] Interfund transfers eliminated.

[b] The excess of Special Fund expenditures over receipts during the fiscal year is covered by "Available Current Surplus" in accordance with Sec. 13 of R. A. No. 992.

The Government maintained a balanced budget for general operations in Fiscal Year 1958. The budget for general operations in Fiscal Year 1959 will also be balanced. And a balanced budget for general operations during Fiscal Year 1960 is proposed.

Consistent with the strict policy enunciated at the start of our Administration, judicious use of national credit to finance economic development without impairing monetary stability has been continued. But I cannot overemphasize the point that failure to raise required additional revenues of the General Fund will disturb the balance between taxation and public borrowings and, consequently, require a reduction of the planned bond fund expenditures.

The proposed Budget for Fiscal Year 1960 will require appropriations from Congress with respect to only ₱759,930,910 from the General Fund, ₱163,291,420 from the Special and Fiduciary Funds, and ₱2,786,580 from the Reparations Funds. All other amounts included in the budget have already been authorized by law.

As in the past two years, I am presenting the 1960 budget in the context of a five-year fiscal plan. The revised 1959 fiscal plan, the plan for 1960 and the projections through 1963 have been oriented to both the present and prospective fiscal, monetary and economic situations.

The following discussion in this Budget Message is divided into two parts, to wit:

PART I.—THE FIVE-YEAR FISCAL PLAN

PART II.—THE 1960 FISCAL PLAN

Part I.—THE FIVE-YEAR FISCAL PLAN

I. THE LONG-RANGE PERSPECTIVE

A Viable Economy—Our Supreme Goal

Early in our Administration we embarked on a greatly accelerated economic and social development program. This decision was made because to maintain merely the status quo would be to break faith with our sovereign people whose aspiration for a satisfactory standard of living must be fulfilled. We must win economic freedom by forging our own economic destiny. I am solemnly pledged during my incumbency as President to pursue this ambitious and resolute program of rapid economic development, to strive for a fuller life for all our people, and to transform our economic environment for the benefit of the common man.

We have taken measures to transform our trade-oriented type of economy into a balanced agro-industrial economy. A fundamental change

in emphasis is now taking place in our economic pattern. Formerly, foreign imports were paramount; now, production is the main concern. Basic economic self-sufficiency has been attained in some staple foods. With adequate financial support to the present programs of the Government and an increased participation of the private sector in production fields, we should be able to achieve a reasonable degree of self-sufficiency in other food items, clothing and shelter.

We have hastened the attainment of a desirable balance between agricultural and industrial production. All indicators point towards increased participation of the industrial sector in the national output. In 1957, manufacturing accounted for about 14 per cent of the national income distribution as compared with about 12 per cent in 1954. Similarly, the composition of the national product has undergone changes showing a marked trend towards industrialization, while imports of capital goods and raw materials continue to dominate the overall composition of the country's total imports.

While we have made gains in production through industrialization we have not neglected nor have we minimized the importance of agriculture in the overall development scheme. The agricultural sector has similarly shown signs of increased activity. In 1957, the index of physical volume of production increased by 19.4 per cent over that of 1954.

We have directed our efforts to the crux of our problem which is to increase production at a pace faster than our rapid population growth in order that real per capita income, the most significant indicator of economic progress, may show a steady rise. Real per capita income has increased from ₱308 in 1953 to ₱356 in 1957.

Thus, we have laid the foundations for progress and have made concrete advances during the past few years towards economic betterment. But much still remains to be accomplished. We are still faced with the problems inherent in a developing economy. We must continue to press ahead more vigorously and with greater confidence the measures we have designed to solve our economic problems. To satisfy a bigger proportion of our own consumption needs we must intensify our efforts to use the raw materials of our own land, with the strength and skills of our own labor, and the ingenuity of Filipino management. This calls for continuing energetic and courageous action on our part, and this is exactly the course I propose to take.

As will be described later in this Message, we are providing from our own resources a substantial and increasing level of public investments for development. The updated Five-Year Fiscal Plan is the Government's proposed plan of action in this great national effort of vanquishing unemployment, poverty, disease and illiteracy in our land.

The Long-Range Goals

The goals of our long-range fiscal plan remain the same: economic and social development. Our economic and social improvement efforts continue to be directed towards the following objectives: (1) to provide a progressively increasing number of jobs and steady employment for our growing labor force; (2) to raise real per capita income; and (3) to bring about a more equitable distribution of income.

We have made strides in providing employment for the unemployed and the ever increasing number of persons entering the labor force each year. On the average, the ratio of employment to the labor force steadily increased from 85 per cent in 1948 to 92 per cent in 1957. What is even more significant in the light of our transition from a predominantly agricultural economy to a more balanced agro-industrial economy is the shift of employment from agricultural to non-agricultural industries. There was an increase of 11 per cent in non-agricultural employment during the period from 1955 to 1957, an evidence that we are consciously moving to this desired goal.

In real per capita income there was an increase of ₱48 in 1957 over that of 1953. We expect the per capita income of the country to rise by approximately 11.1 per cent within the next five years.

We have indirectly effected a more equitable distribution of income through public expenditures for increased social services for our masses, and we expect to be more effective in this regard by implementing more equitable tax policies.

General Pattern of the Government's Development Program

Consistent with the long-term goals set forth above, our economic development program will be pursued in accordance with the following general pattern:

1. Maintenance of attained self-sufficiency in primary foodstuffs and other essential commodities.
2. Broader utilization, development and conservation of the country's natural resources.
3. Strengthening of our international reserves.
4. Continued effort for stabilization of the government's fiscal position.
5. Continued redirection of credit resources to productive undertakings.

6. Attraction of the right kind of foreign investments, assistance and financing.

7. Full exploitation of foreign trade instruments other than controls.

8. Maintenance and broadening of various social services.

Policy Concerning Government Private Corporations

Many of the government private corporations are conducting business and industrial operations which are of vital importance to our productive effort. They produce goods and services beneficial to our economic and social well-being. Several of their activities and projects are discussed in various portions of this Message. However, it may be noted briefly that these corporations are contributing much to the national welfare—producing commodities like cement, steel, fertilizer and gas; providing transport facilities by land, sea and air; generating electric power; stabilizing the prices of essential consumer commodities; and providing social security services. They must be continued whether under government or private auspices.

In addition to their contribution in the form of goods and services for our people, government private corporations also play an important role in fiscal operations. Their receipts and disbursements affect the total spending in the economy, with corresponding effects on income, employment and prices. An examination of their disposable resources will also help in fully appraising the total resources available to the Government in the prosecution of its economic programs. For instance, twelve corporations reported a net profit totalling ₱21 million in Fiscal Year 1958. At the end of the same year the cash balance of nineteen government private enterprises was ₱70.6 million (See Annex R for a summary of the cash flow statement of government private corporations, and Appendix 6 of the Budget for their financial statements.)

But the usefulness of these corporations should not make us deviate from our policy of limiting government participation in direct business undertakings. It is my hope that private enterprise will eventually take over the business and industrial type government private corporations. To this end, I should like to reaffirm the policy of the Administration that the Government will engage in business and industrial activities only in those fields which are vital to the economy but which temporarily at least are not attractive to private initiative either because profit returns are low, too slow to materialize, or because the amount of initial capital required is beyond the resources of private groups. At any time when private enterprise expresses a willingness to purchase or lease on reasonable terms any of our government private corporations under conditions which will guarantee continued levels of service or production, the Government will relinquish its holdings with alacrity.

Encouraged by the successful transfer of the Bacnotan Cement Plant to private enterprise, the sale of the Manila and Ilocos Textile Mills of the National Development Company has been authorized. The shares of the NDC in the Philippine Electric Manufacturing Company and in the Manila Gas Corporation have also been offered for sale. The Maria Cristina fertilizer plant of the National Power Corporation is also being offered for sale. Aside from promoting private enterprise in our economy, the disposition of these public assets will provide the Government with increased liquid resources for investment and pioneering in new ventures.

Pending sale or lease to private groups of other government private corporations, we must gain maximum production from these facilities and take steps to make more attractive their ultimate take-over by private investors. To this end, it will be my policy to strengthen and improve their management and to place them on a sounder financial basis.

Efficacy and Continuity of Long-Range Planning

I am encouraged by our recent experience in long-range fiscal planning. It has enabled us to determine more wisely the financial measures most conducive to our national growth and to allocate more intelligently available resources to programs of highest potential. The flexibility of the annual fiscal plans has been amply demonstrated by the orderly adjustment to the more recent changes in our economic and monetary conditions and in development needs. Necessary policy revisions were made before the need became too pressing, thus obviating precipitate and possibly unwise action.

The initial Five-Year Fiscal Plan was presented to Congress in the Budget Message for the Fiscal Year 1958. It was the first time that such a long-range fiscal plan showing the total expenditure program and financing sources was submitted to Congress. Such a comprehensive approach made it possible to plan with knowledge and to gauge the anticipated impact of total government fiscal operations on the economy. It also afforded both the Executive Branch and Congress the opportunity to reach decisions by deliberate choice from among feasible alternatives, rather than by reliance upon the haphazard *ad hoc* methods in the past.

The investment program and priorities embodied in this Five-Year Fiscal Plan are in consonance with the 1954 economic plan adopted at the start of our Administration. The 1957 recommendations of the Na-

tional Economic Council with respect to the system of industrial priorities to govern the allocation of foreign exchange, the administration of the government's fiscal operations and the extension of credit also guided its formulation.

In this pilot effort at long-range planning, we recognized that the annual fiscal programs should not be regarded as rigid guides to be pursued without modification in the future. Since planning is a continuing process, we designed the basic plan covering the period from Fiscal Year 1957 to Fiscal Year 1961 to be sufficiently flexible to permit adjustment to changes in economic and monetary conditions. The plan was meant to be continuously improved as experience dictates and knowledge grows.

With the passing of Fiscal Year 1957, we re-examined the immediately ensuing year, Fiscal Year 1958, so as to revise and complete the budget relevant to that year. At the same time we added Fiscal Year 1962 to maintain long-range continuity in fiscal planning. This became the Five-Year Fiscal Plan covering Fiscal Years 1958 thru 1962, which was incorporated in my Budget Message last year.

The same procedure was followed in the preparation of the Five-Year Fiscal Plan covering the Fiscal Years 1959 thru 1963 incorporated in this Budget Message. It is the second revision of the initial long-range fiscal program. It represents the collective judgment of this Administration as to the optimum course of public action in achieving balanced and sustained national progress.

Some of the assumptions on which the Five-Year Fiscal Plan prepared last year was premised did not materialize. Our tax proposals were not approved by Congress. Revenues from existing sources dropped substantially from the estimated levels. Actual receipts from reparations proceeds were very much less than we had anticipated. The sale of bonds in the United States under R. A. No. 1000 was not realized. For these reasons, a drastic cutback in the bond-financing program was made. Stringent budgetary measures and retrenchment in government expenditures were resorted to.

Necessary adjustments in our long-range fiscal plan consistent with the changes in economic and monetary conditions and in our development needs are reflected in the updated Five-Year Fiscal Plan for Fiscal Years 1959 to 1963. These adjustments, in quantitative terms, are given in the following table:

1958–1962 Fiscal Plan:

	FY 1958	FY 1959	FY 1960	FY 1961	FY 1962	FY 1963
Economic Development	461.9	552.9	569.4	579.0	591.7	
Social Development	354.8	396.5	456.3	497.6	535.4	
National Defense	176.9	194.9	232.5	237.3	242.3	
Debt Service	68.3	103.2	122.1	130.1	117.5	
General Government	96.5	99.0	110.7	112.2	135.3	
Total Expenditures	1.158.4	1,346.5	1,491.0	1,556.2	1,622.2	

1959–1963 Fiscal Plan:

Economic Development	379.2	362.5	449.2	475.6	516.5	509.0
Social Development	365.4	364.6	397.9	430.7	455.8	491.0
National Defense	181.1	180.6	184.8	187.4	193.0	196.7
Debt Service	68.8	53.8	137.2	126.9	110.6	110.1
General Government	106.2	97.5	111.2	106.9	131.2	118.4
Total Expenditures	1,100.7	1,059.0	1,280.3	1,327.5	1,407.1	1,425.2

Adjustments (+ or −)

Economic Development	−82.7	−190.4	−120.2	−103.4	−75.2
Social Development	+10.6	− 31.9	− 58.4	− 66.9	−79.6
National Defense	+ 4.2	− 14.3	− 47.7	− 49.9	−49.3
Debt Service	+ .5	− 49.4	+ 15.1	− 3.2	− 6.9
General Government	+ 9.7	− 1.5	+ .5	− 5.3	− 4.1
Total Expenditures	−57.7	−287.5	−210.7	−228.7	−215.1

In terms of magnitudes of expenditures, the 1959–1963 fiscal plan currently being submitted is substantially lower than the 1958–1962 fiscal plan. For Fiscal Year 1958, while we had planned on a total expenditure of ₱1,158.4 million for all purposes, actual expenditures were only ₱1,100.7 million. For Fiscal Year 1959, as a result of retrenchment measures, the reduction is even bigger: ₱1,059.0 million in the revised fiscal plan as against ₱1,346.5 million in last year's plan.

The Current Economic Perspective

Balanced economic development is possible only in a climate of monetary stability. What threatens stability, therefore, tends also to defeat the development of new, more productive and more secure sources of livelihood for our people.

The most pressing problems of our economy today are inflationary pressures and low dollar reserves. The retail prices of selected commodities in Manila in 1958 were 12.4 per cent higher than those prevailing in 1955. On January 5th of this year our international reserve stood at $146.5 million, while it was $209.21 million in December, 1955.

These problems, however, are not unique to the Philippines. Other countries, too, have to contend with the problems of maintaining stable prices and a favorable balance of payments even while they promote economic growth and a high level of employment. With the exception of the United States, West Germany, and Venezuela, the decrease in the international reserves of all the other countries of the world from the beginning of April to the end of September, 1957 amounted to $1,100 million.

Investment expenditures, especially those not originating from savings, caused prices to rise and imports to increase. Moreover, the export prices of underdeveloped countries which produce primary products have not been as favorable in comparison to the prices of their industrial imports. Their receipts have also declined owing to the recession in the United States.

In the context of this world economic situation, we have not fared badly. In fact, our economic situation is much better than in most other underdeveloped countries. Compared with 1954, our exports increased by P96 million in 1958. Moreover, the prices of our exports have shown recent increases. From the end of 1957 through November, 1958 the price of copra rose by 29 per cent; sugar, 3.4 per cent; and cordage, 7.4 per cent. During the first nine months of 1958 there were also increased shipments of logs, lumber, and copper concentrates. Higher prices and increased volume resulted in a 4.3 per cent rise in our export receipts during the period.

The improvement of business conditions in the United States and the recent convertibility of several European currencies should augur well for the expansion of our exports. Compared with those for the same period in 1957, our imports decreased by 12.1 per cent in the first nine months of 1958. This decline was achieved primarily by more restrictive foreign exchange allocations.

The increase in prices of commodities purchased by the mass of our people has not been as much as the increase of corresponding prices in other countries. In fact, measured by these prices, our cost of living in 1956 was 5 per cent less than that of 1948. During the same period the cost of living in Australia nearly doubled; in Brazil it nearly tripled.

II. THE FIVE-YEAR FISCAL PROGRAM

Fundamental Policies and Principles

In the preparation of the updated Five-Year Fiscal Plan covering the period from Fiscal Year 1959 through Fiscal Year 1963, we have been guided by the same fiscal policies and principles embodied in last year's budget message, as follows:

1. The Government will continue to maintain a balanced budget for general operations and will make every effort to obtain revenues sufficient to meet planned obligations or reduce commitments accordingly. We will not resort to the practice in the past of deficit financing for current operations.
2. We will engage in a policy of judicious public borrowings to finance economic development without impairing monetary stability. Such borrowings will be used exclusively for income-creating or other productive capital expenditures to finance priority ranking projects directly contributing to industrial and agricultural production. We will reduce the use of national credit as rapidly as development needs are met, or as other resources become available.
3. We will test every proposed expenditure of public funds against the touchstone of the national interest. In the serious business of national development we can not afford the luxury of administrative waste or of excessive expenditures for projects of secondary or merely political importance.
4. Our tax policy will be geared to the essential financial requirements of government for general operations and development purposes. The tax structure must emphasize the progressive factor of ability to pay without impairing legitimate business incentives.
5. The public debt will not exceed a level consistent with our economic growth. We will keep amortization and interest payments against the public debt on schedule and establish the necessary sinking funds for their ultimate retirement.
6. Tariffs will be employed as a means of offering reasonable protection to domestic producers where such measures appear economically sound and in the national interest. However, we will continue to use tariffs primarily as a source of revenue. We will avoid any tendency to isolate the economy behind a formidable tariff wall.

The Five-Year Fiscal Plan, 1959–1963

The Five-Year Fiscal Plan as revised in the light of better information and experience available and the current economic perspective is presented below in consolidated form:

CONSOLIDATED FIVE-YEAR FISCAL PLAN, 1959–1963

By Program Emphasis and Financing Sources

All Funds Combined

(Million Pesos)

	FY 1958 (Act.)	FY 1959 (Est.)	FY 1960 (Est.)	FY 1961 (Proj.)	FY 1962 (Proj.)	FY 1963 (Proj.)	1959–63 Total
Expenditure Purposes: [a]							
1. Economic Development	379.2	362.5	449.2	475.6	516.5	509.0	2,312.8
2. Social Development	365.4	364.6	397.9	430.7	455.8	491.0	2,140.0
3. National Defense	181.1	180.6	184.8	187.4	193.0	196.7	942.5
4. Debt Service	68.4	53.8	137.2	126.9	110.6	110.1	538.6
5. General Government	106.6	97.5	111.2	106.9	131.2	118.4	565.2
Total Expenditures	1,100.7	1,059.0	1,280.3	1,327.5	1,407.1	1,425.2	6,499.1
Financing Sources: [a]							
1. General Fund Receipts	728.8	736.4	736.6	741.4	752.1	761.0	3,727.4
Sale of Treasury Notes	75.0	.....	.....	.....	.....	.....	.....
2. Special and Fiduciary Funds	212.0	144.9	171.5	185.8	191.6	195.3	889.1
Draw down of cash balances	.....	29.0	2.6	.....	.....	.....	31.6
3. Public Borrowings [b]	114.9	58.9	102.3	103.7	84.7	51.9	401.5
4. Other Public Borrowings [c]	37.4	24.9	23.9	29.5	51.0	27.7	156.9
5. Reparations Proceeds	.....	10.4	2.1	.....	13.0	14.8	40.3
6. Required Additional Revenues	.....	55.3	241.6	306.1	414.2	532.6	1,549.8
Total Resources	1,168.1	1,059.7	1,280.5	1,366.6	1,506.6	1,583.3	6,796.7

[a] Interfund transfers eliminated.
[b] R. A. No. 1000 Bond Fund and Negotiable Land Certificates
[c] NPC bonds and NAWASA bonds

Note: 1. Above table does not include:

(*a*) Transactions of government financial institutions.
(*b*) Operating income and expense of government corporations
(*c*) Loans to government corporations from commercial banks or government financial institutions.

2. See Annex A for distribution of expenditures by funds, functions and current and capital outlays.

On the financing side, all possible sources have been considered, including general revenues from existing and additional sources, proceeds from public borrowings and reparations, and other funds. On the expenditure side have been included the budget for the ordinary operations of the Government, public works appropriations, subscriptions to capital stock of government-owned or controlled corporations, investments, and all other obligations of the National Government.

The levels of government expenditures proposed in this long-range fiscal program are based on a reasonable proportion of the national income that can be diverted to government purposes to attain the desired levels of development within the context of monetary stability. For the whole five-year period, public outlays for investment and current expenditures, including the estimated amounts of local government expenditures, average 12.6 per cent of the total national income, as may be noted in Annex B. This ratio is relatively lower than that in many other underdeveloped countries of the world. A comparison of the ratio of government expenditures to national income among various countries of the world is given in Annex B.

A Rising National Income

The general premise on which the Five-Year Fiscal Plan is formulated is a rising national income level. Implementation of the plan will create the healthy atmosphere for the growth and expansion of the private sector and will raise our gross national product and per capita income.

The projection of the growth of national income based on current prices is reflected in the following table:

PROJECTION OF NATIONAL INCOME AND PER CAPITA INCOME

Fiscal Year	National Income (Million Pesos)	Index of Growth	Per Capita Income
1956	7,973	100.0	350
1957	8,561	107.3	367
1958	9,050	113.5	376
1959	9,566	119.9	387
1960	10,111	126.8	397
1961	10,687	134.0	407
1962	11,296	141.6	418
1963	11,940	149.7	430

It is our goal to attain a growth in our national income of 49.7 per cent by 1963 relative to the base year 1956, which means that our national income will be doubled in 17 years. The attainment of this goal will depend on the fulfillment of our economic program and on the relative stability of prices. Our projection of the national income reflects the capacity of this country to grow and its ability to save and invest in productive undertakings. The average annual rate of growth of national income from 1959 to 1963 is 5.7 per cent while that of real per capita income is 4.5 per cent.

Controlling the Expansion of Money Supply

In an effort to minimize the need for deficit financing with its adverse repercussions on the national economy and at the same time sustain the momentum of development, the Five-Year Fiscal Plan was revised downwards to levels which are conducive to the attainment of the country's economic objectives. Non-inflationary sources of financing our development programs were tapped to their maximum levels and the use of national credit to finance economic development was scaled down to the lowest possible requirements of projects under construction or essential to those in operation. A notable feature of the revised Five-Year Fiscal Plan is the increasing reliance on the use of savings to finance a greater proportion of bond fund expenditures. The program of investments has been so designed that the public sector will in effect exert deflationary pressures, while allowing the private sector with its greater productivity the fullest participation in the growth of money incomes, in consonance with our free enterprise system of economy.

With the disinflationary effect of domestic debt servicing and monetary and credit restraints, the increment in the supply of money will be held down to a rate which can sustain the momentum of growth attained in previous years. This new injection of money from both the public and the private sectors along with a controlled policy of balanced foreign exchange transactions will keep average prices to a level within the capacity of the economy to absorb and at the same time act as an incentive for rising economic activities as indicated by technical computations (See Annex C).

Foreign Exchange Requirements

The financing of the development projects firmly scheduled in the Five-Year Fiscal Plan necessarily requires foreign exchange. To minimize the demand for foreign exchange allocation and allow our international reserve to rise to a more comfortable level, we shall continue to tap all possible sources of external loans and take advantage of deferred payment plans. We are augmenting our borrowing capacity in the International Bank for Reconstruction and Development by increasing our subscription to its capital stock. I hope to utilize fully the credit lines aggregating $125 million which I obtained during my state visit to the United States last year. These consist of $75 million from the Export and Import Bank in Washington and $50 million from the Development Loan Fund of the United States Government.

We are also utilizing reparations payments in the form of capital goods and technical services, as well as special arrangements within the framework of our Reparations Agreement with Japan, to meet the foreign exchange requirements of our development projects. The foreign exchange costs of the Marikina Multi-purpose project, the Telecommunications project, the Cagayan Valley railroad, the Sorsogon line of the Manila Railroad Company and the integrated steel mill of the NASSCO in Iligan, Lanao, will be covered fully or partially by reparations.

The total foreign exchange requirements of the development projects under the Five-Year Fiscal Plan amount to approximately $309.8 million, distributed as follows: $18.4 million in Fiscal Year 1959; $79.6 million in Fiscal Year 1960; $88.8 million in Fiscal Year 1961; $55.4 million in Fiscal Year 1962; $22.5 million in Fiscal Year 1963; and $45.0 million in later years. Of these amounts the Central Bank will provide a total of $89.3 million only, distributed as follows: $7.2 million in Fiscal Year 1959; $13.4 million in Fiscal Year 1960; $12.4 million in Fiscal Year 1961; $11.8 million in Fiscal Year 1962; $12.2 million in Fiscal Year 1963; and $32.2 million in later years. The details of the remaining foreign exchange requirements which we hope to obtain from the Development Loan Fund, the Export-Import Bank and the International Bank for Reconstruction and Development, as well as their scheduling during the five-year period, are shown in Annex D.

III. PRIORITY ALLOCATION OF AVAILABLE RESOURCES

Steady Rise in Costs of Expanding Government Services

Government expenditures for all purposes are inescapably on a steadily rising trend. The increasing demands of a rapidly growing population for more and improved essential public services, the requirements of accelerated economic and social development, the need for maintaining our armed forces to safeguard our democratic institutions, the cost of general government operations, and the fund requirements for servicing past and current debts—these elements involve large amounts of money and make the trend of public expenditures inexorably upward.

Presently there is a great deal of talk about increases in the National Budget each year. The uninformed, and sometimes the intelligent, become alarmed at the successively bigger budgets from year to year. They fail to realize that these mandatory increases in expenditures are

normal for a nation that is growing and engaging in a balanced program of economic and social development. Government expenditures are returned to the people, especially our rural population, in terms of better and expanded services and the maximum exploitation and utilization of our natural resources. We are maintaining a policy of economy whether we retrench or expand expenditures, for in either case, economy implies the wise use of resources.

The rising trend of government expenditures is reflected in the following table:

TREND IN NATIONAL GOVERNMENT EXPENDITURES

ALL FUNDS—BY FUNCTIONS

(Million Pesos)

Expenditure Purposes	FY 1953	FY 1954	FY 1955	FY 1956	FY 1957
Economic Development	162.7	287.7	263.4	355.4	373.0
Agriculture and Natural Resources	32.9	35.2	56.4	90.8	115.0
Commerce and Industry	15.8	25.0	55.8	56.6	37.9
Transportation and Communications	88.6	188.1	126.4	169.6	201.2
Other Economic Development	25.4	39.4	24.8	38.4	18.9
Social Development	193.2	231.0	275.4	309.8	342.0
Education	164.4	193.9	215.4	233.5	257.7
Public Health and Medical Care	24.9	30.0	45.3	59.6	71.6
Labor and Welfare	3.9	7.1	14.7	16.7	12.7
National Defense	184.5	176.3	170.0	164.9	156.1
National Defense	170.0	161.2	154.5	147.2	137.5
Maintenance of Peace and Order	14.5	15.1	15.5	17.7	18.6
Debt Service	50.7	52.2	53.2	57.8	92.5
General Government	63.6	63.9	69.8	72.3	83.8
Legislative Service	7.4	7.8	7.8	8.3	8.9
Administration of Justice	7.9	8.3	10.1	10.9	12.8
General Government	45.5	45.7	49.0	49.0	57.9
Pensions and Gratuities	2.8	2.1	2.9	4.1	4.2
Total Expenditures	654.7	811.1	831.8	960.2	1,047.4

Note: Above table does not include Fiduciary Fund and borrowings of government corporations.

As shown in the above table, national government expenditures during our Administration have increased tremendously compared with Fiscal Year 1953. This is particularly so with respect to expenditures for economic and social development. Debt service and general government expenditures have increased moderately, while national defense expenditures declined slightly.

Compared with ₱162.7 million in Fiscal Year 1953 economic development expenditures in subsequent years more than doubled because we have implemented our policy of allocating the highest possible proportion of available resources to this supreme purpose. The capital investments component of these expenditures are even more significant because such investments operate with multiplier effect. Thus, we have augmented the capital wealth of the country which will produce for us an increasing supply of goods and services for the economic well-being of our people.

Compared with ₱193.2 million in Fiscal Year 1953, social development expenditures have also increased by more than 70 per cent because we have implemented a progressive social development policy in the firm conviction that investments in human capital also bring rich dividends in terms of increased national production. In 1953 there were only 89,073 elementary classes, while today we are maintaining 112,598. We have also established and improved 129 vocational schools of agriculture, arts and trade, fisheries and technology. We expanded our public health and medical care programs especially in the rural areas. For instance, while there were only 81 rural health units in 1953, there are now 1,221. Finally, the labor and welfare services of the Government have been greatly expanded requiring expenditures more than four times the Fiscal Year 1953 level.

The Government must at all times be responsive to the paramount needs of our people. Our Administration must, therefore, face this responsibility squarely regardless of unwarranted criticisms on account of the inevitable upward trend of government expenditures.

Relative Program Emphasis in Expenditures

In determining budgetary allowances and program priorities, our criterion has been whether the anticipated benefits justify the economic burden they will impose upon the people either by taxation or by public borrowings. Emphasis is given to those programs which directly promote industrial and agricultural productivity. Public expenditures which significantly contribute to, or facilitate the operation of, dollar-earning and dollar-saving industries in the private sector, and projects which are definitely income-producing and which will bring economic returns within a relatively short time are also given priority.

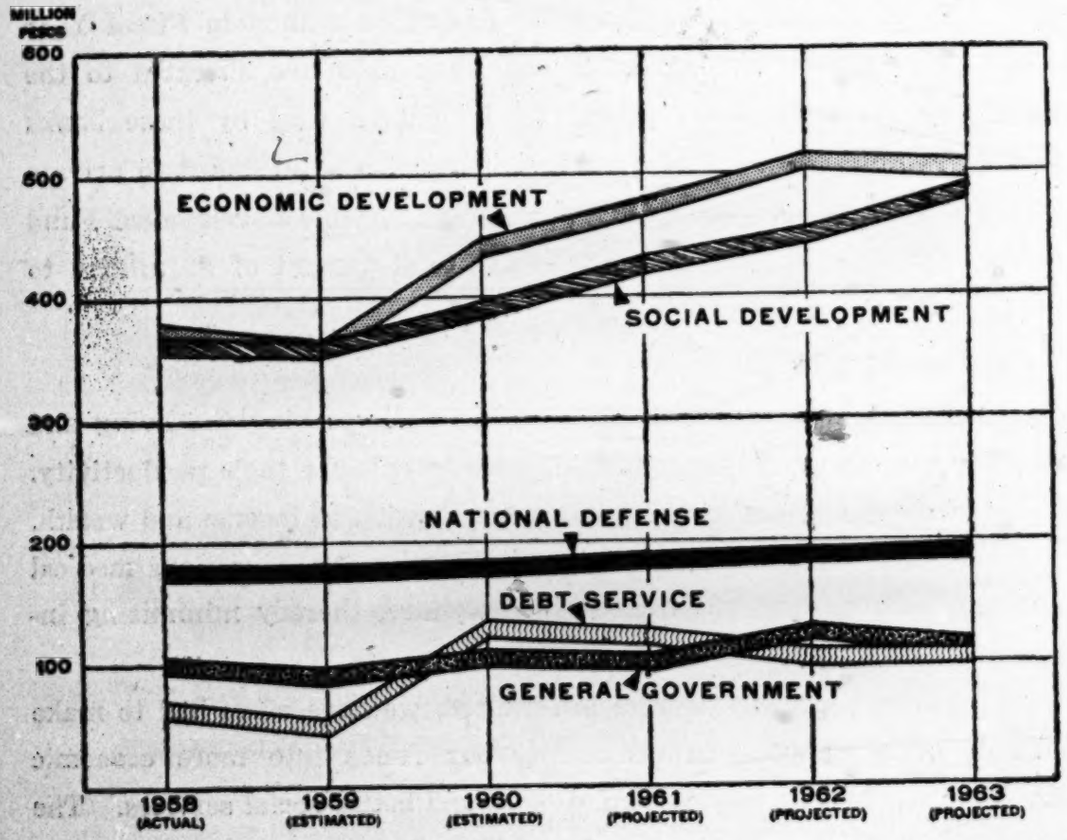
The following chart showing government expenditures from all fund sources from Fiscal Year 1958 to Fiscal Year 1963 reveals the relative emphasis given to the various programs in the light of the above considerations:

FIVE-YEAR FISCAL PLAN

1959–1963

RELATIVE PROGRAM EMPHASIS TRENDS

(ALL FUNDS)



Economic Development

We have allocated increasing amounts of public funds for economic development purposes. In our Five-Year Fiscal Plan, the biggest percentage of expenditures is devoted to economic development: 34.3 per cent of the total expenditures in the current fiscal year and 35.5 per cent in Fiscal Year 1963. The aggregate amounts provided for this function have been increased from ₱362.5 million in Fiscal Year 1959 to ₱509.0 million in Fiscal Year 1963, compared with ₱379.2 million in Fiscal Year 1958 and only ₱162.7 million in Fiscal Year 1953, as may be seen below:

AMOUNTS DEVOTED TO ECONOMIC DEVELOPMENT

ALL FUNDS

(Million Pesos)

Fiscal Year	Amount
1953 (actual)	162.7
1954 (actual)	287.7
1955 (actual)	330.9
1956 (actual)	467.0
1957 (actual)	458.3
1958 (actual)	379.2
1959 (estimated)	362.5
1960 (estimated)	449.2
1961 (projected)	475.6
1962 (projected)	516.5
1963 (projected)	509.0

NOTE: Includes both current operating expenditures and capital outlays

The breakdown of expenditures for economic development in the revised Five-Year Fiscal Plan is shown in the following table:

EXPENDITURES FOR ECONOMIC DEVELOPMENT

ALL FUNDS

(Million Pesos)

	FY 1958 (Act.)	FY 1959 (Est.)	FY 1960 (Est.)	FY 1961 (Proj.)	FY 1962 (Proj.)	FY 1963 (Proj.)
A. CAPITAL OUTLAYS	212.5	182.4	237.4	257.8	286.9	271.7
1. Agriculture and Natural Resources	69.8	42.9	55.1	61.6	64.0	70.2
2. Commerce and Industry	42.3	21.0	35.4	63.2	96.3	80.3
3. Transportation and Communications	88.1	102.0	123.6	118.5	113.6	109.2
4. Other Economic Development	12.3	16.5	23.3	14.5	13.0	12.0
B. CURRENT OPERATING EXPENDITURES	166.7	180.1	211.9	217.8	229.6	237.3
1. Agriculture and Natural Resources	46.4	62.5	67.7	76.0	83.0	87.7
2. Commerce and Industry	11.2	7.1	8.0	9.8	10.7	11.5
3. Transportation and Communications	98.8	95.5	108.3	113.7	117.1	119.3
4. Other Economic Development	10.3	15.0	27.9	18.3	18.8	18.8
Total Expenditures	379.2	362.5	449.3	475.6	516.5	509.0

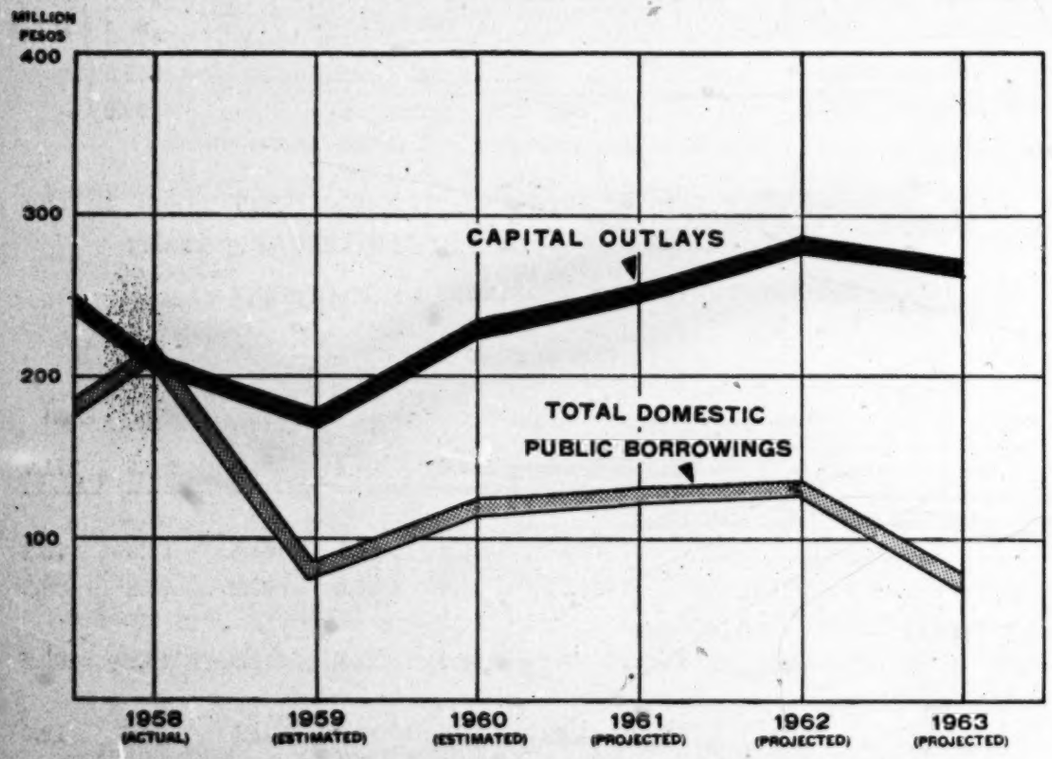
The contribution of the public sector to capital formation has been increasing from year to year. This is significant in that the contribution of the General Fund to the total capital outlays for economic dev-

elopment has been gradually rising and also because the fiscal program is founded on a reduced level of public borrowings. See Annex E and chart below:

FIVE-YEAR FISCAL PLAN

1959–1963

COMPARATIVE PROJECTION OF DEVELOPMENT FINANCING AND PUBLIC BORROWING



These investment magnitudes, particularly those for capital outlays, are expected to raise our national income. They will provide the incentives and the environment for a more vigorous participation of the private sector in our economic program. In the development process we cannot minimize the importance of private undertakings. The largest proportion of our economic development expenditures goes to facilities and services like power, transportation, communication, and irrigation. They constitute the investment capital which the Government provides to support the role of private enterprise in the productive process.

Public funds have been allocated for the expansion of private credit. These funds are being made available to the private sector through the Development Bank of the Philippines, the Philippine National Bank, the rural banks and the ACCFA. From reparations proceeds we are allocating as a Special Trust Fund of the Special Economic Development Fund the sums of ₱6 million in Fiscal Year 1959, ₱0.5 million in Fiscal Year 1960, ₱11.4 million in Fiscal Year 1962, and ₱14.7 million in Fiscal Year 1963, to augment the paid up capital of the Development Bank of the Philippines, pursuant to the provisions of Republic Act No. 2081. From the same source, the amount of ₱3 million in Fiscal Year 1962 and a similar amount in Fiscal Year 1963 are allocated to the Philippine National Bank. These funds will be used by these banks primarily for industrial and agricultural loans to be extended to private enterprise. Also allocated from the Special Economic Development Fund derived from reparations proceeds is the total amount of ₱5 million to constitute the rural banks' revolving fund.

Social Development

Our social development program aims at improving the living and working conditions of our people in order to enhance their productivity. Its other objective is a more equitable distribution of income and wealth.

We have expanded and improved facilities for education, medical services, housing, and social and labor welfare, thereby minimizing inequalities of income and opportunity.

However, because resources are limited, we have often had to make difficult decisions between channeling our funds into more economic development projects and providing more and better social services. The choice would be to provide more funds for the maximum promotion of economic development and to restrict the expansion of social services until such time as additional funds can be generated from the increase in national income occasioned by agricultural and industrial development. However, the mandatory nature of social development expenditures precludes the full adoption of this approach.

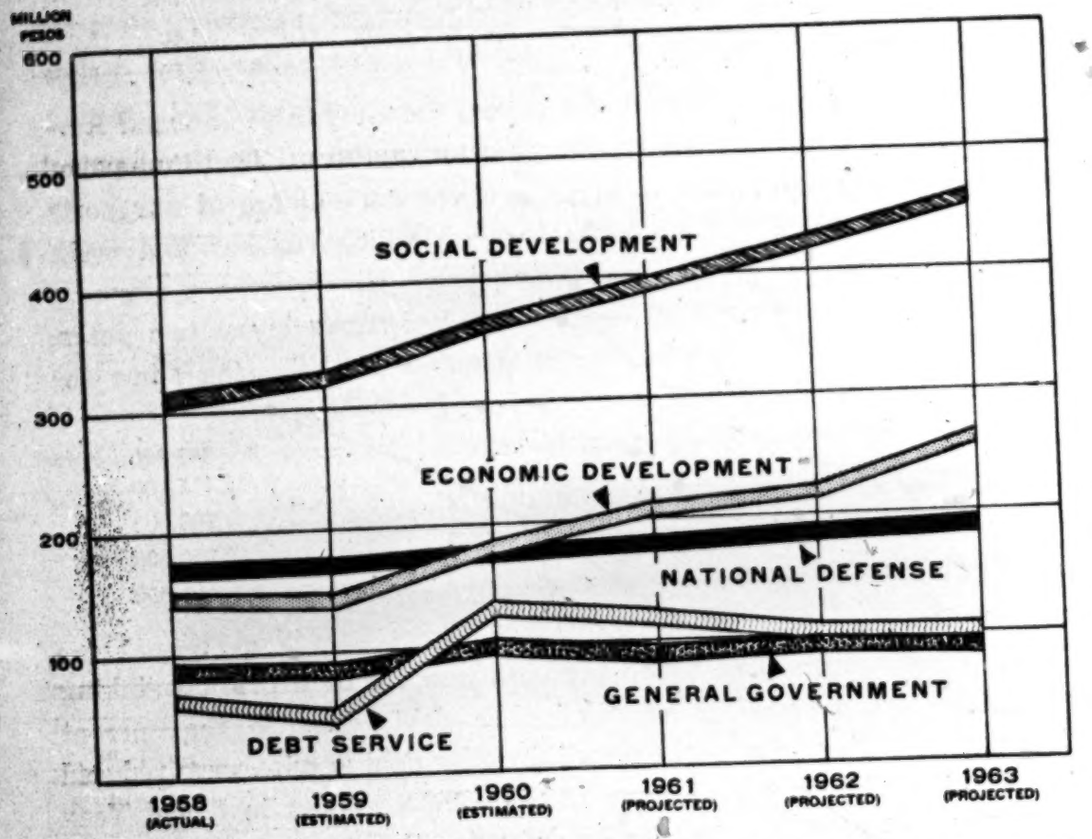
For this reason, we have provided the maximum amount of funds possible for social development within the limits of available general resources. The chart below shows that the largest proportion of General Fund expenditure is devoted to social development:

FIVE-YEAR FISCAL PLAN

1959–1963

EXPENDITURE TRENDS AND RELATIVE PROGRAM EMPHASIS

(GENERAL FUND)



The following table shows the growth of social development expenditures from all funds:

COMPARATIVE AMOUNTS DEVOTED TO SOCIAL DEVELOPMENT
All Funds—Current And Capital Outlays
Fiscal Years 1953 to 1963
(Million Pesos)

Fiscal Year	Amount
1953 (actual)	193.2
1954 (actual)	246.0
1955 (actual)	281.3
1956 (actual)	318.0
1957 (actual)	345.4
1958 (actual)	365.4
1959 (estimated)	364.6
1960 (estimated)	397.9
1961 (projected)	430.7
1962 (projected)	455.8
1963 (projected)	491.0

In Fiscal Year 1953, the amount spent for education was ₱164.4 million; for public health and medical care, ₱24.9 million; and for labor and welfare, ₱3.9 million; or a total of only ₱193.2 million for social development. Over the years, the increase in amounts provided for social development is very significant. In Fiscal Year 1958, we spent a total of ₱365.4 million for this function, or 33.2 per cent of total expenditures, broken down into ₱262.9 million for education, ₱83.2 million for public health and medical care, and ₱19.3 million for labor and welfare. We are proposing to increase these amounts to ₱308.1 million, ₱76.2 million and ₱13.6 million, respectively, for each of the three functions under social development, or a total of ₱397.9 million, in Fiscal Year 1960. But even with these large amounts which we have provided for this purpose, we have not yet raised to desirable standards our social facilities, particularly those for education and health.

The comparatively bigger amounts allotted for social development in later fiscal years over those of 1953 reflect the increases in essential public facilities and services that the Government is providing our people. Thus, we now have more schools, more hospitals, more artesian wells, more waterworks systems, better research laboratories, expanded welfare and labor services, low-cost housing, rural health units and more of other facilities needed by the people, compared to 1953.

National Defense

Our Armed Forces have continued to play their role in keeping secure the environment in which our people live and work. They have made gains in their campaign of maintaining internal peace and order. They have improved their military preparedness for defending our country within our limited financial resources. The Philippine Constabulary has intensified its campaign against vice, banditry and other illegal acts.

This by no means implies that we are going to relax our vigilance against those elements which seek to disturb the peace, security and economic growth of the nation. We will neither compromise nor temporize with those who will try to overthrow our democratic Government.

In this era of modern, nuclear warfare, the defense of small countries like ours must be linked with the common defense of the free world in order to resist more effectively the advances of communism. We shall continue to pursue our commitments to other nations, consistent with our membership in the SEATO and our mutual defense pact with the United States. Nevertheless, the primary responsibility for the defense and security of our state and territorial integrity is still ours. Thus

we have allotted the minimum amounts of increases to our Armed Forces in the Five-Year Fiscal Plan, as may be seen below:

EXPENDITURES FOR THE ARMED FORCES OF THE PHILIPPINES

All Funds—Current And Capital Outlays

(Million Pesos)

	FY 1958 (Actual)	FY 1959 (Est.)	FY 1960 (Est.)	FY 1961 (Proj.)	FY 1962 (Proj.)	FY 1963 (Proj.)
General Headquarters	26.2	25.0	25.4	24.3	24.4	25.0
Philippine Army	64.5	59.2	55.2	61.7	62.7	63.2
Philippine Constabulary	26.9	28.6	33.5	29.3	30.3	30.8
Philippine Air Force	20.4	23.1	25.7	24.5	25.5	26.2
Philippine Navy	16.5	18.2	17.6	19.4	19.9	20.4
Total	154.5	154.1	157.4	159.2	162.8	165.6

General Government

While devoting our energies to the pursuit of economic and social development, we must also give attention to an equally important phase of national activity, that of maintaining or improving the basic functions inherent in an organized democratic society like ours. I wish to emphasize, however, that expenditures for general government purposes, including legislative services, administration of justice, pensions and gratuities and general administration will be kept to the essential minimum.

The following distribution shows the allocation in the Five-Year Fiscal Plan for these functions:

EXPENDITURES FOR GENERAL GOVERNMENT

(Million Pesos)

	FY 1959	FY 1960	FY 1961	FY 1962	FY 1963
Legislative Service	13.0	12.9	12.9	12.9	12.9
Administration of Justice	14.0	13.8	14.3	14.5	14.6
General Government	67.0	75.9	69.7	92.6	78.5
Pensions and Gratuities	3.5	8.6	10.0	11.2	12.4
TOTAL	97.5	111.2	106.9	131.2	118.4

Expenditures for general government indicate an upward trend mainly because of the necessity for higher allocations to the Bureau of Internal Revenue and the Bureau of Customs.

The holding of elections every two years likewise is partly responsible for rising costs. The Constitutional provisions on the tenure of office of our elective officials need revision along these lines: the synchronization of elections, national and local, once every four years; and the election of senators on the basis of specific senatorial districts for eight-year terms, one-half of whom will be chosen by the electorate every quadrennial election.

The intensification of tax and other revenue collections requires bigger appropriations. I, therefore, consider the increased shares of collecting agencies justified and essential. The details of general expenditures for these revenue collecting functions are indicated below:

	FY 1959	FY 1960	FY 1961	FY 1962	FY 1963
Bureau of Internal Revenue	9,315	9,360	11,000	12,400	13,000
Bureau of Customs	4,450	4,520	5,000	5,500	6,000

From these bigger allocations, I expect the Bureau of Internal Revenue to conduct an improved tax collection system. The Bureau of Customs should also be able to apply a closer surveillance of our ports of entry and to plug the loopholes through which customs and tariff revenues are drained.

Our Constitution provides that we hold elections every two years, hence the Commission on Elections is granted the following sums for administration and enforcement of election laws:

Fiscal Year 1959	₱ 369,390
Fiscal Year 1960	12,475,100
Fiscal Year 1961	500,000
Fiscal Year 1962	18,300,000
Fiscal Year 1963	500,000

Debt Service

We must continue the sound business practice of providing sinking funds for the amortization of the public debt. Due to the current retrenchment policy, however, expenditures for debt service were reduced from ₱68.4 million in Fiscal Year 1958 to ₱53.8 million in Fiscal Year 1959. This reduction was effected by deferring the repayment of, and the provision of sinking funds for, some of our obligations. In Fiscal Year 1960, ₱137 million is programmed for debt service. But beginning with Fiscal Year 1961 the expenditures will show a decreasing trend. The composition of our debt service expenditures for the six years from Fiscal Year 1958 to Fiscal Year 1963, is shown below:

DEBT SERVICE EXPENDITURES FOR FISCAL YEARS 1958-1963

(Million Pesos)

	FY 1958 (Act.)	FY 1959 (Est.)	FY 1960 (Est.)	FY 1961 (Proj.)	FY 1962 (Proj.)	FY 1963 (Proj.)
Loan repayment and sinking fund contributions	₱51.1	₱32.0	₱111.5	₱98.8	₱78.9	₱75.5
Interest payable	17.1	21.7	25.6	28.1	31.7	34.5
Retirement of PNB, Guerrilla and BPI Notes (R. A. Nos. 211, 369 and 310)	.2	.1	.1	.05	.05	.05
Total Debt Service Expenditures	₱68.4	₱53.8	₱137.2	₱126.9	₱110.6	₱110.1

(For breakdown see Annex F)

IV. FINANCING NATIONAL DEVELOPMENT

Revenues Insufficient for the Future

I must again invite attention to the significant fact that the country's revenue structure is no longer capable of supporting the irreducible needs of a program oriented to national development. This fact cannot be concealed, nor its full import minimized. We can postpone no longer the enactment of measures necessary to raise needed revenues. To do so is to retard the pace of our progress in the years ahead. This I am not willing to countenance.

Moreover, it is a matter of hard reality—and we must face it—that the trend of public expenditures is unavoidably upward when a country is assiduously developing its economy. In terms of our General Fund resources, this upward trend is caused by these considerations:

1. An expanding population raises the commensurate obligation of the Government to provide additional needed services.

2. The masses of our people are consistently demanding for more accelerated social and economic development.

3. Annually increasing amounts must be set aside to service and amortize the additional public debt incurred in financing national development.

4. Funds must be set aside to amortize the outstanding budgetary debts as of December 31, 1953, amounting to ₱185.4 million, the back-pay obligations incurred prior to our Administration, amounting to ₱605.2 million as of December 31, 1953 and the R & D Bonds of ₱200 million. In addition, it is necessary to liquidate the accumulated deficit of ₱175.5 million on December 31, 1953, for which no funding provision was made.

5. In the interest of sound fiscal policy, it is necessary to transfer gradually non-self-liquidating and non-economic projects from Bond Fund to General Fund financing.

We take pardonable pride in stating that during the period of our Administration from January 1, 1954 to date, the current operating expenses and the normal capital expenditures of the Government have been financed exclusively by tax revenues. Short-term borrowings have been resorted to only to finance extraordinary capital expenditures. But this was possible only because of the continued imposition, often arbitrary, of a stringent budget policy which has sacrificed many highly meritorious programs necessary to our social and economic advancement. It is not wise to continue this rigorous policy because of its retarding effect on national development; efforts should be directed to increase our revenues sufficiently to cover expanded development activities. Accordingly, the projections in the general budget beginning Fiscal Year 1960 indicate a higher level of social and economic development services on the premise that revenues needed for them will be obtained.

The claim in some quarters that we can and should reduce government expenditures to the level of current income is, to say the least, unrealistic and unwise. Education, health and other social services cannot be held to levels incommensurate with sustained and sound national growth without in the end paying a higher price for this type of false economy. On the contrary, we should be providing more, rather than less, funds for these purposes in recognition of the supreme worth which is given to human values in a democracy.

Sustained Development Dependent on Additional Revenues

The long-range revenue estimates incorporated in the Five-Year Fiscal Plan are based on the existing tax structure. In determining them, we took into account all economic factors and pertinent legislation which affect the level of collection. We calculated the impact of anticipated changes in the direction of trade, considered the projected increases in the national income and assumed the premise of an expanding economy. We, therefore, consider the following estimates realistic:

ESTIMATES OF INCOME FOR THE GENERAL FUND UNDER EXISTING LAWS

Fiscal Years 1959–1963

(Million Pesos)

Sources	FY 1958 (Act.)	FY 1959 (Est.)	FY 1960 (Est.)	FY 1961 (Proj.)	FY 1962 (Proj.)	FY 1963 (Proj.)
Excise Taxes	171.4	178.0	180.1	181.5	183.5	185.5
License and Business Taxes	167.5	155.8	163.0	163.5	166.0	168.6
Income Taxes [a]	161.9	167.2	174.7	178.2	182.4	186.6
Import Taxes [b]	167.4	175.2	179.0	178.0	178.5	179.0
Other Taxes and Duties	39.7	39.5	40.7	42.8	43.6	44.3
Other Income	89.5	67.0	56.8	59.1	62.3	63.3
Extraordinary Income [c]	8.3	17.5	14.6	11.3	10.8	10.8
(Appor. to local gov'ts)	(74.2)	(61.2)	(70.2)	(72.2)	(74.2)	(76.2)
Total income from existing sources	731.5	739.0	738.7	742.2	752.9	761.9

[a] Based on existing rates for Fiscal Year 1959.

[b] Assumes:
1. 3 per cent increase in volume
2. Reduction of tax exemption
3. Changes in existing rates as per existing laws R. A. No. 1355 and R. A. No. 1394
4. Changes in direction of trade from 51.3 per cent U.S. goods in Fiscal Year 1959 to 47 per cent in Fiscal Year 1963

[c] Treasury notes excluded.

But additional revenues will be required so that general fund expenditures and anticipated revenues will be in balance. This is indicated in the following projection of revenue-expenditure balance:

PROJECTED REVENUE-EXPENDITURE BALANCE

General Fund

Fiscal Years 1959–1963

(Million Pesos)

Planned Income	FY 1958 (Act.)	FY 1959 (Est.)	FY 1960 (Est.)	FY 1961 (Proj.)	FY 1962 (Proj.)	FY 1963 (Proj.)
1. Existing Taxes and Rates	731.5	739.0	738.7	742.2	752.9	761.9
2. Additional Revenues	.....	55.3	241.6	306.1	414.2	532.6
3. Treasury Notes	75.0	.....	.....	.....	.....	.....
Total Income	806.5	794.3	980.3	1,048.3	1,167.1	1,294.5
Planned Expenditures						
1. Current Operating Expenditures	712.0	721.7	884	897.0	956.0	988.5
2. Capital Outlays	93.8	72.3	95.5	118.5	120.5	157.9
Total Expenditures	805.8	794.0	979.6	1,015.5	1,076.5	1,146.4
Excess of Income Over Expenditures	0.7	0.3	0.7	32.8	90.6	148.1

An Equitable Tax Policy

In my Budget Message last year I endorsed the recommendation of my predecessor to create a joint legislative-executive tax commission to undertake a comprehensive study of the present tax system and administration. I urge the immediate establishment of this body so that its recommendations can be implemented in the next session of Congress.

The Five-Year Fiscal Plan clearly indicates the inevitability of a major re-examination of our revenue structure and tax policies. We shall of course continue intensified efforts to improve the efficiency of our revenue collection machinery and stop widespread tax evasion. Rising collection ratios already indicate the measure of success which can be attributed to the intensification of tax collection. I believe, however, that the time has now come when we must appraise the revenue base of the country to adapt it realistically to our economy whose pattern has changed during the last five years.

In other respects, our revenue system is defective:

1. The tax system is basically regressive in character as indicated by the fact that less than 25 per cent of the nation's revenues are derived from direct taxation.

2. There is a too great dependence upon a complexity of miscellaneous and minor taxes which produce relatively small amounts of revenue. There is a needless proliferation of taxes which are not related to ability to pay and are disproportionate to collection costs.

3. Local governments are still substantially dependent on tax allocations from the National Government. This practice is not conducive to the promotion of strong local governments. Furthermore, full advantage has not been taken of local tax potential.

4. The application of the present law with respect to tax exemption in favor of new and necessary industries is in need of careful reappraisal.

5. Our tax system does not take advantage of increases in wealth derived from land ownership and speculative investment.

6. Our tax system does not take advantage of opportunities to rechannel economic activities to lines of greater production and employment potentials.

At this time, I wish to take the opportunity to express my own views regarding the regressive character of our present tax system. Statistics on actual tax collections show that more than 75 per cent are derived from consumption taxes. These are indirect taxes levied on consumption goods shifted to, and therefore paid by, the ultimate consumers. For instance, whenever a barrio farmer buys a can of milk or a can of sardines, he is paying in fact the customs duty and the sales tax thereon as part of the purchase price. The rich man who is in a more favored economic position pays the same tax as the poor barrio farmer. Considering that 75 per cent of government revenues come from this type of taxes, we can see how the poor have carried the burden of taxes, along with the rich, utterly disproportionate to their ability to pay. And this situation has been going on for more than half a century.

I believe now is the time to give the masses of our people some measure of relief from this undue burden which the present tax structure has too long placed unjustly upon them. We can do this by reducing the indirect taxes on consumption and increasing the direct taxes on income and wealth. In this way the more fortunate members of our society can be made to bear, as they should bear in the true democratic way, their just share of the costs of Government. With the added revenues resulting therefrom the Government will then be able to expand public services for the general welfare. This is what I mean by an equitable tax program.

To guide the proposed commission, I reiterate the principles enunciated in the Budget Message last year, as follows:

1. To avoid increasing the tax burden of the average taxpayer.

2. To assess sectors of the economy not now bearing their proportionate share of the costs of Government.

3. To place emphasis on progressive rather than regressive factors in the tax system, with ability to pay as the principal criterion.

4. To avoid impairing appropriate business incentives.

5. To use the tax structure as a legitimate instrument for achieving social and economic justice in the distribution of the fruits of our national economy.

Our economy is capable of yielding additional revenues. In Fiscal Year 1957 only 8.5 per cent of our national income was diverted to government purposes by taxation. It is proposed that this proportion be raised gradually to 11 per cent, more or less, in Fiscal Year 1963. Our country has one of the lowest tax levels in the world. In many other underdeveloped areas in the Far East, taxes absorb from 15 to 20 per cent of the national income. (Annex G).

Judicious Use of National Credit

The last five years saw the Government embark on an extensive development plan financed partly by the use of national credit. An expenditure program based on a judicious balance between taxation and public borrowings was formulated in the first Five-Year Fiscal Plan for 1957–1961. However, as a consequence of the non-approval of the recommended tax measures, the magnitudes of public borrowings had to be scaled down each year. We also had to shift the foreign exchange requirements from our international reserves to foreign credit resources.

The following table shows the adjustments made in the proposed public borrowing programs in line with the above developments:

COMPARATIVE MAGNITUDES OF PROPOSED EXPENDITURES FROM PUBLIC BORROWINGS

Fiscal Year	1957–1961 Fiscal Plan	1958–1962 Fiscal Plan		1959–1963 Fiscal Plan				
	Domestic	Domestic	Foreign	Domestic	Foreign			
					Total	Ex-Im Bank	World Bank	Dev't Loan Fund
1958	264	145.0	14.2	222.1[1]	8.4	8.4	—	—
1959	260	145.0	51.6	83.7	22.0	—	22.0	—
1960	250	131.2	47.1	127.1	93.7	70.9	13.0	9.7
1961	240	136.6	30.0	133.1	107.7	73.7	28.9	5.1
1962	—	116.6	58.9	135.7	56.7	14.6	39.0	3.0
1963	—	—	—	79.6	5.7	2.9	2.8	—

[1] Includes Treasury Notes of ₱75 million, proceeds of which accrued to the General Fund.

The plan last fiscal year was to sell abroad R. A. No. 1000 bonds to finance the foreign and part of the domestic costs of the projects scheduled in the integrated bond financing plan. However, the sale was not realized. We had to fall back on our own resources in order to continue with our development plans. To avoid further decline in our international reserves in the 1959–1963 Fiscal Plan, we will utilize resources from abroad including loans from the Export Import Bank, the World Bank and the Development Loan Fund, and reparations. (See Annex D)

Our policies on new bond issues aim at tapping domestic savings. While it may be difficult to rely on the volume of current individual savings owing to our low per capita income, there is no dearth of institutionalized savings in our country. The GSIS and SSS have bought PWED bonds worth ₱19.8 million so far this year.

We have adhered closely to the established criteria for selecting those programs and projects to be financed by the use of national credit, as follows:

1. Borrowed funds can be used only for bona fide capital expenditures.

2. Projects to be financed from this source must be directly productive or clearly contributory to increased agricultural and industrial productivity.

3. The proceeds of public borrowings must be assigned to truly self-liquidating or income-creating projects.

4. All projects financed by borrowed funds must rank high on the priority listing of essential programs and demonstrate a high benefit-cost ratio.

The integrated bond financing program (Annex H) was revised in accordance with the above criteria and includes urgent new projects whose foreign exchange requirements are now under negotiation, such as power development, overseas shipping, integrated steel mill, the Marikina Multi-purpose project, and public works projects approved by the Export Import Bank and the Development Loan Fund.

The Public Debt and Its Management Consistent with National Income Growth

On December 31, 1953, the total public debt was ₱1,238.4 million as adjusted for additional backpay obligations under R. A. No. 304. As of June 30, 1958, the outstanding public debt was ₱1,926.7 million. Our Administration is accountable, therefore, for the net increase of ₱688.3 million in the public debt during a period of 4½ years.

The increase in the public debt is explained in the following table:

COMPARATIVE STATEMENT OF PUBLIC DEBT

As of December 31, 1953 and June 30, 1958
(Million Pesos)

	Dec. 31 1953	Per Cent to Total	Payments	Additional Borrowings	June 30, 1958	Per Cent to Total
NATIONAL GOVERNMENT	793.9	64.1	230.6	461.1	1,024.4	53.2
Backpay	605.2	48.9	144.7	.....	460.5	23.9
Budgetary	185.4	14.9	85.1	.....	100.3	5.2
Developmental	3.3	0.3	.8	461.1 *	463.6	24.1
GOVERNMENT CORPORATIONS	379.4	30.6	150.2	645.3	874.5	45.4
Private credit	108.0	8.7	129.5	450.6 *	429.1	22.3
Developmental	251.5	20.3	8.3	194.7 *	437.9	22.7
Backpay	19.9	1.6	12.4	.....	7.5	.4
LOCAL GOVERNMENTS	65.1	5.3	38.8	1.5	27.8	1.4
TOTAL	1,238.4	100.0	419.6	1,107.9	1,926.7	100.0

* See Annexes I, J and K for breakdown.

On the one hand, we have made payments on the public debt amounting to ₱419.6 million. On the other, we have incurred ₱1,107.9 million of additional borrowing. Hence, the net increase of ₱688.3 million.

We have paid ₱144.7 million of the backpay obligations amounting to ₱605.2 million, leaving a balance of ₱460.5 million.

We have paid ₱85.1 million of the budgetary debts amounting to ₱185.4 million as of December 31, 1953, incurring no additional budgetary debt. Thus, the outstanding budgetary debt on June 30, 1958, was reduced to ₱100.3 million.

As already stated, the additional borrowing during our Administration totalled ₱1,107.9 million, of which ₱461.1 million was incurred by the National Government; ₱645.3 million, by government corporations; and ₱1.5 million, by local governments.

The ₱461.1 million incurred by the National Government was devoted exclusively for development purposes as follows:

	(Million Pesos)
1. Negotiable Land Certificates issued under R. A. No. 1400 for part payment of 16 landed estates acquired by the Land Tenure Administration	₱4.6
2. Treasury Notes, 5-year, R.A. No. 245 for financing part of the capital expenditures of the General Fund	237.8
3. Public Works and Economic Development Bonds issued under R.A. No. 1000 for financing various national government projects	218.7
Total	₱461.1

(For details of specific projects see Annex I)

Of the ₱645.3 million borrowed by government corporations, ₱450.6 million represents public funds which the Government made available to the private sector for its long-term, medium-term and short-term credit requirements in the financing of agriculture, industry and commerce. The remaining ₱194.7 million went to the financing of the development programs of government-owned and controlled corporations.

The breakdown of the ₱450.6 million which went a long way to meet the credit requirements of private enterprise is as follows:

	(Million Pesos)
1. ACCFA Notes and Certificates of Indebtedness, R.A. No. 821 and R.A. No. 1194—For financing production, farm improvement, commodity, merchandising and facility loans and for tobacco trading operations	₱232.0
2. PWED Bonds, R.A. No. 1000—To the Philippine National Bank for agricultural and industrial loans	66.0
3. RFC Bonds—To finance agricultural, industrial and real estate loans, and to subscribe to capital stock of rural banks	129.2
4. Home Financing Commission, R.A. No. 580 and R.A. No. 1930—To guarantee home financing loans	5.0
5. Industrial Guaranty and Loan Fund, R.A. No. 16—Proceeds from the sale of surplus agricultural products loaned for development purposes	18.4
Total	₱450.6

(For details of specific projects see Annex J)

The ₱194.7 million incurred by various government-owned or controlled corporations represents bonds and loans for the following purposes:

	(Million Pesos)
1. PWED Bonds, R. A. No. 1000	₱72.9
a. For the rehabilitation, promotion and industrialization of the abaca industry—ABACORP, R.A. No. 1295	₱4.0
b. For increased capitalization of the CEPOC and the development of coal resources, R.A. No. 1395	17.0
c. For the extension of railroad line from San Fernando, La Union, to Bacnotan and rehabilitation of Cabanatuan Line, R.A. No. 1290	1.3
d. NPC—Loboc hydroelectric project	1.4
e. NARRA—Resettlement of and aid to settlers	17.9
f. NASSCO—Iligan and Panganiban Steel Projects, R.A. No. 1296	18.7
g. PHHC—For low cost housing in 5 sites, R.A. No. 1322	8.6
h. NAWASA—For waterworks and artesian wells authorized in different public works acts	3.2
i. PHILCOA—For industrialization of the coconut, R.A. No. 1369	.8

2. Corporation Bonds and Loans		121.8
a. NPC Bonds—To finance the construction of various hydroelectric projects	88.7	
b. IBRD Loan—NPC—To finance the foreign exchange requirements of Binga Hydroelectric Project	8.4	
c. MRR—Foreign loan to finance the procurement of rolling stock	9.5	
d. NAWASA (MWD) Bonds—To finance the construction and improvement of the water supply system of Manila and suburbs	15.2	
Total borrowings of government corporations		₱194.7

(For details of specific projects see Annex K)

Under the Five-Year Fiscal Plan, the proposed borrowing program and scheduled repayments will raise the public debt to ₱2,411.2 million at the end of Fiscal Year 1963 (Annex L). While the floating of government securities, including refinancing issues and external borrowings will decline from a peak of ₱378.4 million in Fiscal Year 1961 to ₱151.3 million in Fiscal Year 1963, the amounts will be offset by repayments ranging from ₱261.4 million to ₱101.4 million from Fiscal Year 1959 to Fiscal Year 1963. In determining the feasible and justifiable levels of the public debt, we have seen to it that the debt is more than offset by the rise in national income. Furthermore, in relation to our national income, the debt is low compared with the ratios of other countries (See Annex M).

I intend to continue the sound business practice of providing for interest payments and regular amortization on the bonded debt. Funds have also been set aside to redeem our external debt, budgetary and backpay obligations.

Among the significant obligations due for redemption during the 1959–1963 period are treasury notes, backpay, R & D bonds and the ₱22 million loan from the International Monetary Fund.

By virtue of an opinion of the Department of Justice, many backpay claims under R. A. No. 897 of 30 years' maturity have been converted to claims under R. A. No. 304 of 10 years' maturity. For this reason, the Backpay Sinking Fund under the latter Act is deficient by about ₱104 million. To cover this deficiency, I propose to extend the annual contribution of ₱21.0 million for five years beginning Fiscal Year 1960. I, therefore, urge Congress to amend the backpay law, Republic Act No. 304, as amended, in order that the payment of backpay obligations may be deferred for five years.

As mentioned above and in previous budget messages, ₱200 million of R & D bonds issued between 1949 and 1951 are starting to mature. Some government corporations have returned to the Government parts of the principal sums they borrowed. These repayments were utilized to redeem maturing R & D bonds. But those government corporations which have invested the funds in equipment and capital improvements will find it difficult to repay the sums borrowed by them. To meet this problem, government corporations authorized to issue their own bonds may be allowed to refund their R & D obligations. This arrangement, however, is only a partial solution. I, therefore, reiterate my recommendation in last year's budget message for legislation providing for the refinancing of R. & D bonds which cannot be covered by the above arrangement, and establishing a sinking fund for their final redemption. (See Annex N).

Confronted by inadequate tax resources, we had to issue treasury notes in order to defray part of the authorized capital outlays under the General Fund. To date ₱237.8 million of these securities are outstanding In Fiscal Year 1960, we are redeeming ahead of time ₱67.1 million. In the succeeding years, the balance of ₱170.7 million will be redeemed in accordance with the schedule shown in Annex O, except ₱60 million which will be refinanced by issuing one-year, two-year, and three-year securities to suit the liquidity preferences of investors.

As we continue financing our development with the use of national credit, the public debt will necessarily grow. Consequently, there will be greater need for developing a strong bond market. Debt management is an efficient tool for stabilization provided the securities are distributed among a greater number of holders. To make National Government securities attractive to investors, the interest rate was raised from 4 to 6 per cent with an effective yield of 7 per cent for being tax-exempt. We shall introduce other features in the terms of government securities so that people may find it worthwhile to invest their savings in them.

Effective Utilization of Sources from Reparations

We are now in the third reparations year in the implementation of the Reparations Act, R. A. No. 1789. During the first and second years, goods and services amounting to $74.6 million were contracted, and requisitions for more reparations items amounting to $174.5 million were placed with Japanese suppliers. To date, payments received by us from Japan have amounted to $47.3 million in goods and services.

We shall allocate the cash proceeds from the sale of reparations items among the various economic development projects contemplated in the reparations and other laws. The estimated cash proceeds from the sale of reparations goods and services from Fiscal Year 1959 to Fiscal Year 1963 is ₱105.2 million. (Annex P). Of this amount, ₱40 million will be set aside for the Veterans Trust Fund and ₱65.2 million for the Special Economic Development Fund. The latter sum will be allotted over the five-year period, as follows:

1. To the Development Bank of the Philippines to constitute a special trust fund for the establishment of provincial development banks	₱32,600,000
2. To the Philippine National Bank as a trust fund for private development projects	6,000,000
3. For the construction of school buildings	9,800,000
4. For a revolving fund as additional aid in the establishment of rural banks	5,000,000
5. For the purchase of landed estates	11,200,000
6. Unallocated	610,290